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TAGS: ETRD PREL AR
SUBJECT: GOA view of MERCOSUR Economic Priorities: Lesser Expectations

Ref: Buenos Aires 1127

Brasilia 1034

¶1. (SBU) SUMMARY: Foreign Affairs Ministry (MFA) and Economy Ministry contacts are skeptical that MERCOSUR will make progress on its key economic priorities going forward: 1) revise the common external tariff (CET); 2) coordinate macroeconomic policy; 3) eliminate double collection of tariffs; 4) address asymmetries of smaller countries; 5) discuss how to handle non-tariff barriers; 6) manage enlargement, i.e. the applications of Venezuela and Bolivia for full membership. Most of these items have essentially been on the MERCOSUR agenda since its founding. MFA and Economy Ministry contacts predict that the addition of Venezuela to MERCOSUR will further complicate the already difficult progress toward more liberalized trade. End Summary.

The Future of MERCOSUR

¶2. (SBU) Ernesto De la Guardia (DLG -- PROTECT), Counselor in the Ministry of Foreign Affairs' MERCOSUR office, described during recent meetings with Econoff GoA perspectives on the current MERCOSUR economic agenda. He declined to predict the likelihood of any of these changes occurring, noting that in six years of working MERCOSUR issues, he has seen little forward progress. Adrian Makuc (PROTECT), National Director of External Trade in the Ministry of Economy, also expressed skepticism recently, during separate meetings, about the probability of seeing significant change in MERCOSUR norms in the future. They provided specific comments on MERCOSUR priorities going forward.

¶3. (SBU) REVISE Common External Tariff (CET): DLG attributed MERCOSUR's inability to achieve a single CET to the fact that phase-out periods for individual country CET exceptions were continuously being extended (Note: MERCOSUR countries agreed to extend them again in 2006, through the end of 2008. End Note). He

also blamed MERCOSUR's special regimens, which all members had agreed to, but only apply to individual members. As an example, he pointed to Argentina's duty-free entry for many capital goods, instituted in January 2003 and extended last year through December ¶2008. DLG stated that GoA goals were to see lower duty rates - preferably zero - for capital, information and telecom goods.

¶4. (SBU) COORDINATE MACROECONOMIC POLICIES: DLG stated that the ultimate goal for MERCOSUR - in theory, at least - is to achieve the degree of coordination seen by the European Union, with a common monetary policy, a common tax policy, and free movement of labor and services. He said that this could also include standardizing subsidies and incentives (a GoA priority area), but noted that Brazil - with its individual state tax regimes - is having the most difficulty in moving forward on this objective.

¶5. (SBU) ELIMINATE DOUBLE TARIFF COLLECTION: Currently, goods imported into one member country and later sent to another member (unless substantially transformed) face tariff collection on both entries. This is an obvious contravention of the principle of the CET, but DLG noted that efforts to eliminate it are requiring a great deal of coordination among the members. He said that there were ongoing efforts to harmonize the laws regulating each country's Customs agency, and predicted they could be completed by the end of ¶2007. If successful, implementation will be targeted in 2008, along with development of information sharing and a method for transferring collected duties. The current plan is for this to be active by 2009, at which point double collection would end.

¶6. (SBU) ADDRESS ASYMMETRIES: Paraguay and Uruguay, as the smallest members overall of MERCOSUR, argue they have benefited less from MERCOSUR. Given the less than liberalized nature of the trade bloc, investors most often locate in the larger countries (Argentina or Brazil), which gives them the benefits of intra-bloc commerce with

the added security of a large domestic market, as a hedge against continued or increased protectionism by other members. In 2006, in an effort to address limited investment in Paraguay and Uruguay, the four members allocated $100 million to a fund (called the FOCEM, the Fund for Structural Convergence) designed for improving infrastructure in the two small countries, mainly Paraguay. However, DLG commented that this amount was nearly insignificant, and Makuc noted that the fund had actually been agreed upon in 2003, though not funded until 2006.

¶7. (SBU) ADDRESS NON-TARIFF BARRIERS: DLG noted that Uruguay had presented a proposal and timetable to completely eliminate all non-tariff barriers (NTBs) by the end of 2008. DLG said the GoA considered this proposal unacceptable, as it even called for the elimination of sanitary/phyto-sanitary (SPS) requirements, which the GoA considers essential. He also noted that the Uruguayan proposal would preclude import licensing requirements, including automatic ones, which the GoA applies to "nearly everything." Makuc observed that Brazil also frequently uses NTBs, such as applying new SPS rules on short notice and stepping up truck inspections at the border during peak shipping season.

¶8. (SBU) HANDLE ENLARGEMENT: DLG noted that Brazilian ratification of Venezuela's request for full membership would prove difficult, especially in light of increasing tensions between the two countries (see Ref B). (Not clear why difficult with Paraguay?) Both DLG and Makuc noted that, nearly a year after signing an accession agreement, the GoV had yet to provide a timetable for adhering to MERCOSUR protocols. They doubted one would be forthcoming. Makuc also expressing the concern that economic reforms would take even more of a back seat to political objectives once Venezuela was able to participate in MERCOSUR votes. DLG echoed this comment, giving as an example Venezuela's proposal for MERCOSUR to declare the U.S. a "terrorist government." He wondered how many more such ideas they would present as a full member. On Bolivia, DLG stated that several obstacles remain for the GoB to become a MERCOSUR membership while remaining in the CAN (Andean Community), including different tariff nomenclatures and different extra-bloc standards on IPR, services, and government procurement. DLG was skeptical of the GoB's continuing trade negotiations with the EU as part of CAN, and said they appeared to be a ploy to get the U.S. to extend ATPDEA benefits to Bolivia.

Still At Square - Or Article - One

¶9. (SBU) DLG pointed out to Econoff that many of the objectives in the Treaty of Asuncion - the founding document of MERCOSUR, signed in 1991 - have never been fulfilled. These include the "free circulation of goods, services and factors," the "elimination of customs duties and other non-tariff restrictions," the "adoption of a common [external] trade policy," and "macroeconomic and sectoral policy coordination" (which would include trade, agriculture, fiscal, monetary, foreign exchange and capital, services, customs, transportation, communication policies, and "others agreed upon"). DLG also provided Econoff with MERCOSUR decision (number 26/03), dated December 2003, which lays out a "work program" for the following three years. Many of the goals, such as eliminating double tariff collection and harmonizing the Customs code, remain on the current agenda, unfulfilled. Meanwhile, the remaining economic goals - apart from forming ad hoc groups on biotechnology and government procurement - are not only unfulfilled, but are now essentially off the agenda. These include harmonizing extra-bloc antidumping and safeguard measures, creating a regional capital market, allowing free movement of labor, and facilitating business expansion within multiple MERCOSUR countries.

¶10. (SBU) Makuc argues that two factors explain the limited progress on MERCOSUR's agenda. One is that "Brazil is very clear in what it wants" from MERCOSUR: a leadership role, which it will use for a

larger role in world politics, such as its quest for a permanent seat on the United Nations Security Council. He said that creating additional tension in the bloc would harm the perception of Brazil as a leader, so Brazil is not likely to act as an agent of change. The second is the reluctance of all members - including Argentina - to eliminate protectionist measures and integrate economically. According to Makuc, Brazil doesn't want "to bother the other MERCOSUR members," which would be the result of pressing for increased liberalization.

Comment

¶11. (SBU) While the MERCOSUR priorities that DLG described would contribute to liberalizing trade among the members, the fact that they were all on the agenda in 2003, and many were even in the founding document of the bloc, is evidence of the lack of progress to date. Also significant is that the current working agenda is considerably less ambitious than it was in 2003. The GoA officials comments that Brazil seems content not to push for further reform indicates that the status quo will likely continue, especially considering Argentina's comfort level with managed trade mechanisms (as an example, see Ref A for background on GoA policies in the auto sector). Given Venezuela's focus so far on political proposals, it is even more unlikely that the GoV's full inclusion would accelerate the economic integration process.

¶12. (U) For more Buenos Aires reporting, visit our classified website at: http://www.state.sgov.gov/p/wha/buenosaires.< /a>

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